

Message Text

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ORIGIN STR-07

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COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05
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APPROVED BY STR:RRIVERS
COMMERCE FMONTGOMERY
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TREASURY JRAY
LABOR DWHITE

-----117041 041215Z /11

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FM SECSTATE WASHDC
TO USMISSION GENEVA PRIORITY
AMEMBASSY BRUSSELS PRIORITY

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E.O. 11652:

TAGS:MTN, ETRD

SUBJECT: SUBSIDIES/COUNTERVAIL

1. SET FORTH BELOW IS SUBSIDY PAPER FOR DELIVERY
TO EC (ABBOT IN GENEVA, KLIEN IN BRUSSELS).

BEGIN TEXT

THE EXISTING GATT RULES WOULD PROVIDE THE STARTING
POINT FOR AGREEMENT. THE EMPHASIS WOULD BE ON THE EFFECTS
OF SUBSIDIES, AND NOT SUBSIDIES PER SE. THE DISTINCTIONS
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BETWEEN (A) INTERNAL AND EXPORT SUBSIDIES, AND (B)
SUBSIDIES ON PRIMARY (OR AGRICULTURAL) AND NON-PRIMARY
(OR NON-AGRICULTURAL) PRODUCTS WOULD BE RETAINED. WITH
REGARD TO COUNTERMEASURES, AGREEMENT WOULD BUILD UPON THE
TWO-TRACKS CURRENTLY IN THE GATT: (1) COUNTERVAILING
DUTIES UNDER ART. VI, AND (2) NULLIFICATION AND IMPAIRMENT.

1. GENERAL COMMITMENT. -- COUNTRIES WOULD AGREE TO AVOID THE USE OF SUBSIDIES IN A MANNER WHICH CAUSES SERIOUS PREJUDICE TO THE TRADE INTERESTS OF OTHER COUNTRIES (I.E.,

INJURY, THREAT OF INJURY, OR NULLIFICATION AND IMPAIRMENT OF TRADE AGREEMENT BENEFITS). THE TERM 'SUBSIDY' WOULD BE DEFINED.

2. INTERNAL SUBSIDIES. -- COUNTRIES WOULD SEEK TO AVOID INTERNAL SUBSIDIES THAT CAUSE "PARTICULAR CONCERN" BECAUSE OF THEIR POTENTIAL FOR (1) INJURY OR THREAT OF INJURY TO AN INDUSTRY IN ANOTHER COUNTRY, OR (2) NULLIFICATION AND IMPAIRMENT OF BENEFITS UNDER THIS OR OTHER TRADE AGREEMENTS. GUIDELINES ON INTERNAL SUBSIDIES THAT CAUSE PARTICULAR CONCERN MIGHT INCLUDE, AMONG OTHERS, THE FOLLOWING:

A. GOVERNMENT PARTICIPATION IN INDUSTRY. -- GOVERNMENTS SHOULD AVOID CAPITAL PARTICIPATION IN AN ENTERPRISE, WHICH AFFECTS IMPORT OR EXPORT TRADE, IN A MANNER INCONSISTENT WITH COMMERCIAL CONSIDERATIONS, INCLUDING PRICE. GOVERNMENTS SHOULD ALSO AVOID CAPITAL PARTICIPATION IN AN ENTERPRISE FOR PURPOSES OF COVERING SIGNIFICANT OPERATING LOSSES OVER A SUSTAINED PERIOD OF TIME;

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B. REGIONAL AIDS. -- GOVERNMENTS SHOULD SEEK TO AVOID REGIONAL DEVELOPMENT PROGRAMS THAT PROVIDE ASSISTANCE BEYOND THAT NECESSARY TO COMPENSATE FOR THE ECONOMIC DISADVANTAGE OF LOCATING IN THE PARTICULAR REGION VIS-A-VIS OTHER REGIONS IN THE COUNTRY;

C. GOVERNMENT GRANTS. -- GOVERNMENTS SHOULD SEEK TO AVOID PROVIDING GRANTS FOR AN INDIVIDUAL UNDERTAKING BY A PRIVATE ENTERPRISE IN EXCESS OF (X) OF THE TOTAL CAPITAL COST OF THE UNDERTAKING;

D. GOVERNMENT LOANS AND GUARANTEES. -- GOVERNMENTS SHOULD SEEK TO AVOID MAKING LOANS OR LOAN GUARANTEES OF A LOAN FOR AN INDIVIDUAL UNDERTAKING BY A PRIVATE UNDERTAKING IN EXCESS OF (X) OF THE TOTAL CAPITAL COST OF THE UNDERTAKING WHEN SUCH A LOAN OR GUARANTEE CARRIES AN EFFECTIVE INTEREST RATE (Y) BELOW THE RATE WHICH WOULD NORMALLY BE CHARGED BY COMMERCIAL BANKS FOR A SIMILAR LOAN;

E. INFRASTRUCTURE SERVICES. -- GOVERNMENTS
SHOULD AVOID PROVIDING INFRASTRUCTURE SERVICES
BELOW PRICE LEVELS NORMALLY PROVIDED FOR COMMERCIAL
UNDERTAKINGS.

3. EXPORT SUBSIDIES ON PRIMARY PRODUCTS. -- TO BE
SPECIFIED.

4. EXPORT SUBSIDIES ON NON-PRIMARY PRODUCTS. --
COUNTRIES WOULD "AGREE NOT TO GRANT" SUCH SUBSIDIES (AS
NOW PROVIDED UNDER GATT ART. XVI:4). EXPORT SUBSIDY
WOULD BE DEFINED AND THE PRESENT DUAL PRICING REQUIRE-
MENT ELIMINATED; THE 1960 ILLUSTRATIVE LIST WOULD BE
"UPDATED".
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5. THE EFFECTIVENESS OF AGREED PROVISIONS ON
SUBSIDIES WILL DEPEND, TO A LARGE EXTENT, UPON THE
DEVELOPMENT OF SPECIFIC INTERPRETATIONS ON A CASE-BY-
CASE BASIS. FOR THIS REASON PROVISION FOR CONSULTA-
TIONS AND MANAGEMENT OF DIFFERENCES (INCLUDING DISPUTE
SETTLEMENT PROCEDURES) WILL BE PARTICULARLY IMPORTANT.

END TEXT.

PLEASE REPORT ANY RESPONSE AS SOON AS POSSIBLE. CHRISTOPHER

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